(Convenience Translation into English from the Original Previously Issued in Portuguese)

Indústrias Romi S.A.

Consolidated Financial Statements for the Years Ended December 31, 2007 and 2006 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board of Directors and Management of
Indústrias Romi S.A.
Santa Bárbara d'Oeste - SP

1. We have audited the accompanying consolidated balance sheets of Indústrias Romi S.A. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Brazilian reais and prepared in accordance with international accounting standards issued by the International Accounting Standards Board (IASB), under the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements.

2. Our audits were conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, and consisted principally of: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the consolidated financial statements taken as a whole.

3. In our opinion, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial positions of Indústrias Romi S.A. and subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations, the consolidated changes in their shareholders' equity and cash flows for the years then ended in conformity with international accounting standards issued by the International Accounting Standards Board (IASB).

4. Brazilian accounting practices differ, in certain material respects, from international accounting standards issued by the International Accounting Standards Board (IASB). Information related to the nature and effect of these differences is presented in note 4.2. to the consolidated financial statements.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, February 12, 2008

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Walbert Antonio dos Santos
Engagement Partner

INDÚSTRIAS ROMI S.A. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R$)

ASSETS	Note	2007	2006
CURRENT ASSETS			
Cash and cash equivalents	5	189,010	71,069
Temporary cash investments:			
Trading securities	13	111,512	15,853
Trade accounts receivable	6	64,244	49,162
Onlending of FINAME manufacturer financing	7	223,221	170,908
Inventories	8	183,044	169,790
Recoverable taxes	9	11,537	7,032
Other receivables		3,479	2,047
Total current assets		786,047	485,861
NONCURRENT ASSETS			
Long-term assets:			
Trade accounts receivable	6	2,136	-
Onlending of FINAME manufacturer financing	7	409,896	259,578
Recoverable taxes	9	5,391	7,105
Deferred income and social contribution taxes	19b	8,016	6,102
Escrow deposits		7,087	1,049
Other receivables		2,928	3,232
Property, plant and equipment, net	10a	129,666	117,294
Total noncurrent assets		565,120	394,360
TOTAL ASSETS		1,351,167	880,221

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2007	2006
CURRENT LIABILITIES			
Loans and financing	11	30,854	8,685
FINAME manufacturer financing	12	192,884	149,240
Trade accounts payable		25,193	18,151
Payroll and related charges	14	35,934	25,880
Taxes payable	15	8,013	8,081
Advances from customers		9,702	4,628
Dividends, interest on capital and profit sharing		6,775	54,171
Other payables		4,640	2,337
Total current liabilities		313,995	271,173
NONCURRENT LIABILITIES			
Loans and financing	11	50,293	23,825
FINAME manufacturer financing	12	348,710	232,154
Reserve for contingencies	16	8,746	5,478
Deferred income and social contribution taxes on negative goodwill	19b	1,404	1,404
Taxes payable		1,896	-
Total noncurrent liabilities		411,049	262,861
SHAREHOLDERS' EQUITY			
Capital		505,764	275,791
Capital reserve		2,209	2,209
Cumulative foreign currency translation adjustments		(968)	(267)
Profit reserve		117,247	67,000
Shareholder's equity (Company)		624,252	344,733
MINORITY INTEREST		1,871	1,454
Total shareholders' equity		626,123	346,187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,351,167	880,221

The accompanying notes are an integral part of these financial statements.

INDÚSTRIAS ROMI S.A. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R$)

	Note	2007	2006
Domestic market		679,099	599,100
Foreign market		82,057	65,434
GROSS OPERATING REVENUE		761,156	664,534
TAXES ON SALES		(129,168)	(115,586)
NET OPERATING REVENUE		631,988	548,948
COST OF SALES		(359,875)	(310,410)
GROSS PROFIT		272,113	238,538
OPERATING INCOME (EXPENSES)			
Selling expenses		(59,786)	(58,076)
General and administrative expenses		(45,456)	(44,685)
Research and development expenses		(26,340)	(21,105)
Management profit sharing and compensation		(12,425)	(10,495)
Tax expenses		(6,742)	(4,997)
Other income		1,031	481
Total		(149,718)	(138,877)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		122,395	99,661
Financial income		30,508	13,282
Financial expenses		(5,048)	(2,572)
Exchange gains		(3,796)	891
Exchange losses		6,258	(1,460)
		27,922	10,141
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		150,317	109,802
INCOME AND SOCIAL CONTRIBUTION TAXES		(25,543)	(24,745)
Current	19a	(27,457)	(25,373)
Deferred	19a	1,914	628
NET INCOME		124,774	85,057
ATTRIBUTED TO:			
Controlling shareholders' interest		124,219	84,782
Minority interest		555	275
		124,774	85,057
Basic and diluted earnings per share		1.68	1.36

The accompanying notes are an integral part of these financial statements.

INDÚSTRIAS ROMI S.A. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R$)

		Attributed to controlling shareholders' interest								
				Profit reserve						
	Note	Capital	Capital reserve	Profit reserve	Legal reserve	Cumulative foreign currency translation adjustments	Retained earnings	Shareholders' equity (Company)	Minority interest	Total
BALANCES AS OF DECEMBER 31, 2005		235,791	2,209	75,687	21,591	-	-	335,278	1,280	336,558
Capital increase		40,000	-	(40,000)	-	-	-	-	-	-
Net income		-	-	-	-	-	84,782	84,782	275	85,057
Dividends paid		-	-	(48,950)	-	-	-	(48,950)	(101)	(49,051)
Foreign currency translation adjustments		-	-	-	-	(267)	-	(267)	-	(267)
Allocations:										
Legal reserve	17	-	-	-	4,146	-	(4,146)	-	-	-
Interest on capital - Law No. 9249/95	17	-	-	-	-	-	(26,110)	(26,110)	-	(26,110)
Profit retention	17	-	-	54,526	-	-	(54,526)	-	-	-
BALANCES AS OF DECEMBER 31, 2006		275,791	2,209	41,263	25,737	(267)	-	344,733	1,454	346,187
Capital increase with issue of shares	17	229,973	-	-	-	-	-	229,973	-	229,973
Net income		-	-	-	-	-	124,219	124,219	555	124,774
Foreign currency translation adjustments		-	-	-	-	(701)	-	(701)	-	(701)
Allocations:										
Legal reserve	17	-	-	-	5,448	-	(5,448)	-	-	-
Interest on capital - Law No. 9249/95	17	-	-	-	-	-	(42,814)	(42,814)	-	(42,814)
Dividends paid		-	-	-	-	-	(31,158)	(31,158)	(138)	(31,296)
Profit retention	17	-	-	44,799	-	-	(44,799)	-	-	-
BALANCES AS OF DECEMBER 31, 2007		505,764	2,209	86,062	31,185	(968)	-	624,252	1,871	626,123

The accompanying notes are an integral part of these financial statements

INDÚSTRIAS ROMI S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R$)

	Note	2007	2006
Cash flows from operating activities:			
Net income		124,774	85,057
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	10a	11,855	9,124
Allowance for doubtful accounts		480	739
Loss (gain) on sale of property, plant and equipment		(103)	1,047
Interest on trade accounts receivable, trade accounts payable, and loans and financing		2,850	2,791
Exchange variation on trade accounts receivable, trade accounts payable, and loans and financing		(3,038)	(1,094)
Deferred income and social contribution taxes	19a	(1,914)	(628)
Provision for inventory losses		(1,428)	2,263
Reserve for contingencies, net		(2,770)	(65)
Increase (decrease) in assets:			
Temporary cash investments in trading securities		(95,659)	(5,463)
Trade accounts receivable		(14,252)	22,525
Onlending of FINAME manufacturer financing		(202,631)	(203,135)
Inventories		(11,826)	(7,394)
Recoverable taxes, net		(2,791)	(4,031)
Other receivables		(1,128)	1,200
Increase (decrease) in liabilities:			
Trade accounts payable		7,275	(2,871)
Payroll and related charges		10,054	4,541
Taxes payable		25,185	20,035
Advances from customers		5,074	(7,318)
Other payables		2,303	(464)
Net cash used in operating activities		(147,690)	(83,141)
Payment of interest on loans and financing		(3,293)	(2,161)
Payment of income and social contribution taxes		(23,357)	(21,806)
Net cash used in operating activities		(174,340)	(107,108)
Cash flows from investing activities:			
Purchases of property, plant and equipment	10a	(27,716)	(51,554)
Sale of property, plant and equipment		3,592	203
Net cash used in investing activities		(24,124)	(51,351)
Cash flows from financing activities:			
Interest on capital and dividends paid		(121,506)	(24,602)
Borrowings		56,641	20,393
Capital increase with issue of shares		229,973	-
Repayment of loans and financing		(8,903)	(15,482)
Increase in FINAME manufacturer financing		327,342	299,477
Repayment of FINAME manufacturer financing		(167,142)	(118,066)
Net cash provided by financing activities		316,405	161,720
Increase in cash and cash equivalents and temporary cash investments		117,941	3,261
Cash and cash equivalents and temporary cash investments - beginning of year		71,069	67,808
Cash and cash equivalents and temporary cash investments - end of year		189,010	71,069

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

Indústrias Romi S.A. (the "Company") is engaged in the manufacture and sale of machine tools, metal cutting machines, plastic injection molding machines, industrial equipment and accessories, tools, castings and parts in general, IT equipment and peripherals, systems analysis and development of data processing software related to the production, sale, and use of machine tools and plastic injectors, manufacturing and sale of rough cast parts and machined cast parts, export and import, representation on own account or for the account of third parties, and provision of related services, as well as holding interests in other commercial or civil companies, as partner or shareholder, and the management of own and/or third-party assets. The Company's industrial facilities consist of nine plants divided into three units located in the city of Santa Bárbara d'Oeste, in the State of São Paulo. The Company also holds equity interests in subsidiaries in Brazil and abroad, as described in Note 3.

On March 23, 2007, the Company adhered to the corporate governance concepts established by the New Market listing segment of the São Paulo Stock Exchange (Bovespa).

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1. Basis for presentation

The Consolidated Financial Statements of the Company for the years ended December 31, 2007 and 2006 have been prepared in accordance with International Financial Reporting Standard (IFRS) 1, First-time Adoption of International Financial Reporting Standards. The Consolidated Financial Statements of the Company have been prepared in accordance with the IFRS issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in effect on December 31, 2007.

The Consolidated Financial Statements of the Company have been prepared and are presented in accordance with Brazilian accounting practices (BRGAAP), based on the provisions of the Brazilian Corporate Law and standards established by the Brazilian Securities Commission (CVM) until December 31, 2006 and these practices differ in some aspects from the IFRS. When preparing the Consolidated Financial Statements for 2007, the Company adjusted certain accounting and valuation methods under BRGAAP in order to conform with IFRS. The 2006 comparative data were restated to reflect such adjustments, except for those described in the release from optional and mandatory accounting practices in Note 4.1.2..

The reconciliation and description of the effects of transition from Brazilian accounting practices to IFRS, relating to shareholders' equity, net income and cash flows, are stated in Note 4.

The preparation of Financial Statements under the IFRS requires Management to make accounting estimates. The areas that involve judgment or use of estimates relevant to the Consolidated Financial Statements are stated in notes 2.17. and 2.18.. The Consolidated Financial Statements have been prepared using the historical cost as the base value, except for the valuation of certain financial instruments.

2.2. Translation of foreign currency

a) Functional and reporting currency

The information on subsidiaries included in consolidation and the investments accounted for under the equity method is measured using the currency of the country where the entity operates (functional currency). The Company defines the functional currency of each subsidiary by analyzing which currency significantly influences the sales price of its products and services and the currency in which most of the cost of its production inputs is paid or incurred. The Consolidated Financial Statements are presented in Brazilian reais (R$), which is the Company's functional and reporting currency.

b) Transactions and balances

The transactions in foreign currency are converted to the functional currency using the exchange rate in effect on the transaction date. The gains and losses resulting from the difference between the conversion of assets and liabilities in foreign currency at the date of the Consolidated Financial Statements and the conversion of the transaction amounts are recognized in the statement of income.

c) Group companies

The results of operations and the financial positions of all the subsidiaries included in the consolidated financial statements, and investments accounted for under the equity method (none of which located in hyperinflationary economies) which have a functional currency different from the reporting currency are translated to the reporting currency as follows:

i) Assets and liabilities are translated at the exchange rate prevailing at the balance sheet dates;

ii) Income and expense accounts are translated at the average monthly exchange rate; and

iii) All exchange rate translation differences are recognized in shareholders' equity, under the caption "Cumulative foreign currency translation adjustments".

2.3. Financial assets

Investments are recognized and derecognized on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets, which are measured at fair value through profit or loss, initially measured at fair value.

Financial assets are classified in the following categories: at fair value through profit or loss, held to maturity, available for sale and loans and receivables. Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future estimated cash receipts (including all the rates paid and received forming an integral part of the effective interest rate, transaction costs and other premiums or discounts) throughout the expected life of the financial assets, or, where appropriate, for a shorter period.

Gains are recognized based on effective interest for undesignated debt instruments at fair value through profit or loss.

Financial assets at fair recognized value through profit or loss

Financial assets are classified at fair value through profit or loss when assets are held for trading or designated at fair value through profit or loss. A financial asset is classified as held for trading if it is:

- Acquired principally for the purpose of selling it in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- A derivative that it is not a designated and effective hedging instrument.

A financial asset that is not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition;The financial asset is part of a managed group of financial assets or liabilities, or both, and whose performance is measured based on its fair value, according to the Company’s documented risk management or investment strategy, and information about that group of assets is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) is designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, together with gains and losses recognized in profit or loss. Net gain or loss recognized in profit or loss includes any dividends or interest obtained on the financial asset. Fair value is determined as described in note 13.

Held-to-maturity investments

Exchange bills and debentures with fixed or determinable payments and fixed maturities that the Company has the positive intent or ability to hold to maturity are classified as investments held to maturity. Held to maturity investments are recognized at the amortized cost under the effective interest method, less the provision for impairment, and income is recognized based on the actual return rate.

Available-for-sale financial instruments

Unlisted equity securities and redeemable securities held by the Company that are traded in an active market are classified as available-for-sale and measured at fair value. Fair value is determined as described in note 13. Gains and losses arising from changes in fair value are recognized directly in shareholders' equity under revaluation reserve of investments, except for impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. When the investment is sold or is judged impaired, the cumulative gains or losses previously recognized in the investments' revaluation reserve are then included in the profit or loss for the period.

Dividends from equity investments classified as available-for-sale financial assets are recognized in profit or loss when the Company's right to receive such dividends is established.

The fair value of foreign currency-denominated available-for-sale monetary assets is determined in the foreign currency and translated at the balance sheet date exchange rate. The fair value attributed to the translation differences resulting from the change in the amortized cost is recognized in profit or loss, and other changes are recognized in shareholders' equity.

Loans and receivables

Cash and cash equivalents, accounts receivable, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective rate method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets that are not classified at fair value through profit or loss are annually tested for impairment. Financial assets are impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been impacted.

For unlisted equity securities classified as available for sale, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and financial lease receivables, an objective evidence of impairment may include:

- Significant financial difficulty of the issuer or party involved;
- Breach of financial commitment such as a default or delinquency in interest; or
- When it is probable that the borrower will enter bankruptcy.

For certain categories of financial assets such as trade accounts receivable and onlending of FINAME manufacturer financing, the allowance for doubtful accounts is calculated based on a risk assessment, which considers historical losses, each customer's financial position and the financial position of the economic group to which they belong, guarantees and legal counsel's opinion, and is considered sufficient to cover any losses on accounts receivable.

For financial assets recognized at amortized cost, impairment is the difference between the asset's recorded amount and the present value of the estimated future cash flows, discounted at the effective original interest rate of the financial asset.

The carrying amount of the financial asset is directly reduced by the impairment loss for all the financial assets, except for accounts receivable, whose carrying amount is reduced through the use of an allowance. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Except for available-for-sale equity securities, if in a subsequent period the impairment loss is reduced and the decrease can be objectively related to an event that occurred after the recognition of the impairment, the previously recognized impairment loss is derecognized through profit or loss limited to the what the amortized cost would have been had the impairment not been recognized.

In respect to available-for-sale equity securities, impairment losses previously recognized through profit or loss are not derecognized through profit or loss. Any increase in fair value subsequent to the recognition of an impairment loss is recognized directly in shareholders' equity.

<u>Derecognition of financial assets</u>

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4. Financial liabilities and equity instruments issued by the Company

Classification as debt or equity instruments

Debt and equity instruments are classified as financial liabilities or equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The components of a compound instrument issued by the Company are classified separately as financial liabilities and equity, according to the substance of the contractual arrangement. At the issue date, the fair value of the liability component is estimated using the market rate of interest for a similar non-convertible financial liability. This amount is recognized as a liability based on the amortized cost, using the effective interest method until it is extinct through the conversion or maturity of the instrument. The equity component is then assigned the residual amount after deducting from the fair value of the compound instrument as a whole the amount separately determined for the liability component. This amount is recognized and included in shareholders’ equity, net of income tax, and is not subsequently remeasured.

Financial guarantee contracts

Financial guarantee contracts are initially recognized at fair value and are subsequently measured at the greater of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified at fair value through profit or loss or as other financial liabilities.

Financial liabilities at fair value recognized through profit or loss

Financial liabilities are classified at fair value through profit or loss when liabilities are held for trading or designated at fair value through profit or loss.

A financial liability is classified as held for trading if it is:

- Incurred principally for the purpose of repurchasing it in the near term;Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- A derivative that it is not a designated and effective hedging instrument.

Financial liabilities that are not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition;

- The financial liability is part of a managed group of financial assets or liabilities, or both, and whose performance is measured based on its fair value, according to the Company's documented risk management or investment strategy, and information about that group of assets is provided internally on that basis; or

- It is part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) is designated at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, together with gains and losses recognized in profit or loss. Net gains or losses recognized in profit or loss comprise any interest paid on financial liabilities. Fair value is determined as described in note 13.

<u>Other financial liabilities</u>

Other financial liabilities, including loans, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

2.5. Derivative financial instruments

The Company values its derivative financial instruments based on quotations obtained with market players, which consist of the fair value of the financial instruments at the balance sheet date. However, the intense volatility of the Brazilian exchange and interest rate markets caused, in certain periods, significant changes in future rates and interest rates over very short periods, generating significant variations in the swap market in a short period of time.

2.6. Inventories

Inventories are stated at the lower of net realizable value (estimated sale value in the normal course of business minus estimated cost of sale) and average production or acquisition cost. Provisions for slow-moving or obsolete inventories are recorded when considered necessary by Management. The Company determines the cost of its inventory using the absorption method based upon the weighted average cost.

2.7. Property, plant and equipment

Property, plant and equipment are stated at historical cost monetarily adjusted when applicable in accordance with IAS 29, less depreciation, except for land, which is not depreciated, plus interest capitalized during the period of construction of the main new units.

Depreciation is calculated under the straight-line method, based upon the estimated useful lives of the assets.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. The residual balance of the replaced item is written off. Other repairs and maintenance are recognized directly in income when incurred.

The residual value and useful life of the assets are reviewed and adjusted, if necessary, at the fiscal year end.

The residual value of property, plant and equipment is written off immediately at their recoverable value when the residual balance exceeds the recoverable value (Note 2.8.).

2.8. Provision for recovery of long-lived assets

Management reviews the book value of long-lived assets, especially fixed assets to be held and used in the Company's operations, in order to determine and assess deterioration on a periodic basis or whenever events or changes in circumstances indicate that the book value of an asset or group of assets cannot be recovered.

Analyses are performed in order to identify circumstances that could require evaluating long-lived assets for recoverability and potential impairment. The assets are evaluated according to possible deterioration based on expected future discounted cash flow over the estimated remaining life of the assets depending on new events or circumstances. In this case, a loss would be recognized based on the amount by which the book value exceeds the probable recoverable value of the long-lived asset. The probable recoverable value is determined as the higher of (a) the fair value of the assets minus estimated costs of sale and (b) the value in use determined by the expected present value of future cash flow of the asset or cash generating unit.

2.9. Investments

The Company fully consolidated the Financial Statements of all its subsidiaries. There is control when the Company holds, directly or indirectly, most of the voting rights at the Shareholders' Meeting or has the power to determine the financial and operational policies, to obtain benefits from its activities.

Third parties' interest in subsidiaries' shareholders' equity and net income is separately presented in consolidated balance sheet and statement of income, respectively, under the caption "Minority interest".

Whenever required, adjustments are made to the subsidiaries' financial statements to conform the respective accounting practices to the IFRS applied by the Company.

2.10. Current and deferred income and social contribution taxes

The current income and social contribution tax expense is calculated in conformity with current tax laws in effect at the date of the financial statements in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred income and social contribution taxes are recognized according to the liability method described in IAS 12, on the differences between assets and liabilities recognized for tax purposes and related amounts recognized in the Consolidated Financial Statements. However, deferred income and social contribution taxes are not recognized if generated in the initial record of assets and liabilities in operations that do not affect the tax bases, except in business combination operations. Deferred income and social contribution taxes are determined based on the tax rates and laws in effect at the date of the financial statements and applicable when the respective income and social contribution taxes are paid.

Deferred income and social contribution tax assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax losses can be offset.

2.11. Employee benefits

The Company has several employee benefit plans, including pension, healthcare and profit sharing plans. The main plans granted to the Company's employees are described in notes 14 and 20.

The postemployment plan is characterized as a defined contribution plan, on which the Company has no legal obligation should the plan's assets not be sufficient for the payment of the benefits granted to the employees as a result of past services provided, as described in IAS 19 - Employee Benefits.

2.12. Other current and noncurrent assets and liabilities

They are recorded at realizable amounts (assets) and at known or estimated amounts plus accrued charges and monetary variations incurred (liabilities), when applicable.

2.13. Related-party transactions

Loan agreements between companies in Brazil are adjusted at the average weighted market funding rate. Loan agreements with companies located abroad are adjusted based on financial charges (Libor + 1% p.a.) plus exchange variation, when applicable. Sales and purchases of inputs and products are made under terms and conditions similar to those for transactions with unrelated parties.

2.14. Payment of dividends

Recognized as liabilities when dividends are approved by the Company's shareholders. The Company's bylaws require that at least 25% of annual net income, determined in accordance with Brazilian Corporate Law and accounting practices, be distributed as dividends; accordingly, at yearend the Company accrues the amount of the minimum dividend that was not paid during the year, up to the limit of the mandatory minimum dividend described above.

2.15. Recognition of sales revenue

Sales revenue is stated on a gross basis, i.e., it includes taxes and discounts, which are stated as revenue reductions. Taxes on sales are recognized when sales are invoiced and discounts on sales are recognized when known. Product sales revenue is recognized when the sales amount can be measured reliably, it is probable that the Company will receive the related economic benefits, and risks and benefits of the products are all transferred to the buyer. Freight on sales is recorded as selling expenses.

2.16. Investments in environmental protection

Expenditures related to compliance with environmental regulations are considered as cost of production when they refer to routine or usual expenses or capitalized as incurred, when they refer to long-term projects that will generate return after more than one year.

2.17. Use of estimates

The preparation of the Consolidated Financial Statements in accordance with International Accounting Standards requires the use of estimates to record certain assets, liabilities and other transactions. To make these estimates, Management used the best information available up to the date of the financial statements and the experience of past and/or current events, also considering assumptions related to future events. The Consolidated Financial Statements include, therefore, estimates related to the useful lives of property, plant and equipment, recoverable value of long-lived assets, reserve for contingencies, provisions for income tax and other. Actual results could differ from those estimates.

2.18. Application of judgment and critical accounting policies when preparing Financial Statements

Critical accounting policies are those that are both (a) important to present of the financial position and results of operations and (b) require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the statement of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy described below:

a) Deferred income tax

The liability method of accounting for income taxes is used for deferred income taxes arising from temporary differences between the book and tax basis of assets and liabilities and for tax loss carryforwards. Deferred income tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

b) Useful lives of long-lived assets

The Company recognizes depreciation of its long-lived assets based on estimated useful lives, which are based on industry practices and prior experience and reflect economic lives of long-lived assets. Nevertheless, actual useful lives can vary based on technological update of each unit. Useful lives of long-lived assets also affect impairment tests of those long-lived assets, when required.

2.19. New IFRS and new IFRIC interpretations

Some new IFRS accounting standards and IFRIC interpretations were published and must be adopted for the period beginning on January 1, 2008 (the IFRICSs) or January 1, 2009 (the IFRSs) and others were applied in 2007. The Company's assessment of the impact of these new procedures and interpretations is as follows:

a) New IFRS standards and interpretations applied in 2007:

IFRS7 - *Financial Instruments: Disclosures*

In August 2005, IASB issued IFRS 7 "Financial Instruments: Disclosures", which stipulates additional requirements of disclosure in relation to the significance of financial instruments and qualitative and quantitative information in relation to the exposure to risks related to these instruments.

This standard succeeds the disclosure requirements set forth both in IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation" and is effective for annual periods beginning on or after January 1, 2007.

CHANGES TO IAS 1 - Presentation of Financial Statements

In August 2005, IASB revised IAS 1 "Presentation of Financial Statements - Disclosures of Capital", which requires that an entity provides additional qualitative and quantitative information to allow the users of the financial statements to assess their objectives, policies, and procedures for capital management. The amendment is effective for annual periods beginning on or after January 1, 2007. Management adopted the disclosure requirements on December 31, 2007.

IFRIC 7 - Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies

In November 2005, IFRIC issued Interpretation 7 "Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies" in order to clarify that the restatements required by IAS 29 should be made retrospectively if an economy becomes hyperinflationary during the reporting period. An entity shall apply IFRIC 7 for annual periods beginning on or after March 1, 2006. The Company did not identify impacts on the consolidated financial statements of the adoption of IFRIC 7.

IFRIC 8 - Scope of IFRS 2

In January 2006, the IFRIC issued Interpretation 8, which requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. An entity shall apply IFRIC 8 for annual periods beginning on or after May 1, 2006. The Company did not identify impacts on the consolidated financial statements of the adoption of IFRIC 8.

IFRIC 9 - Reassessment of Embedded Derivatives

In March 2006, the IFRIC issued Interpretation 9, which requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. An entity shall apply IFRIC 9 for annual periods beginning on or after June 1, 2006. The Company did not identify impacts on the consolidated financial statements of the adoption of IFRIC 9.

IFRIC 10 - Interim Financial Reporting and Impairment

In July 2006, the IFRIC issued Interpretation 10, to clarify whether interim impairment losses should ever be reversed. An entity is required to assess goodwill for impairment at every reporting date, to assess investments in equity instruments and in financial assets carried at cost for impairment at every balance sheet date and, if required, to recognize an impairment loss at that date in accordance with IAS 36 and IAS 39. This Interpretation provides guidance on whether such impairment losses should ever be reversed at any time. IFRIC 10 concluded an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other standards. An entity shall apply IFRIC 10 for annual periods beginning on or after November 1, 2006. The Company did not identify impacts on the consolidated financial statements of the adoption of IFRIC 10.

b) New IFRS standards and IFRIC interpretations not yet adopted by the Company:

IAS 23 - Borrowing Costs

In March 2007, the IASB issued a revised version of IAS 23, which addresses the inclusion in assets of the borrowing costs that are attributable to the acquisition, construction or production of an asset. An entity shall apply this standard for annual periods beginning on or after January 1, 2009. The Company is assessing the impacts of the adoption of this standard.

IAS 1 - Presentation of Financial Statements

In September 2007, the IASB revised once again IAS 1. The amendment is effective for annual periods beginning on or after January 1, 2009. The Company is assessing the impacts of the amendment to this standard on the disclosure of its consolidated financial statements.

IFRS 8 - Operating Segments

In November 2006, IASB issued the IFRS 8, which specifies ways of disclosing information about operating segments in the annual financial information and amends IAS 34 “Interim Financial Information”, which requires that an entity reports selected financial information about its operating segments in interim financial information. This standard defines an operating segment as components of an entity about which segregated financial information is made available and is assessed by the person responsible for managing the business in his decisions on how to allocate resources and evaluate performance. This standard also specifies requirements for disclosures related to products and services, geographical areas, and main customers and is effective for annual periods beginning on or after January 1, 2009. The Company understands that the adoption of IFRIC 8 will not have any significant impact on its consolidated financial statements.

IFRIC 11 - Group and Treasury Share Transactions

In November 2006, the IFRIC issued Interpretation 11, to clarify the accounting for certain share-based payment arrangements involving an entity's own equity instruments (treasury shares) and share-based payment arrangements that involve two or more entities within the same group.

This Interpretation provides that share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether (a) the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement; (b) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholders; or (c) the share-based payment arrangement was settled by the entity itself or by its shareholders. With regard to share-based payment transactions that involve two or more entities within the same group, this Interpretation provides that in the instance of a parent granting rights to its equity instruments to the employees of its subsidiary, if the share-based payment arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognized in equity as a contribution from the parent. In the event that a subsidiary grants rights to equity instruments of its parent to its employees, this Interpretation requires that the subsidiary shall account for the transaction with its employees as cash-settled. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees. An entity shall apply IFRIC 11 for annual periods beginning on or after March 1, 2007. The Company understands that the adoption of IFRIC 11 does not have any impact on its consolidated financial statements.

IFRIC 12 - Service Concession Arrangements

In November 2006, the IFRIC issued Interpretation 12, which provides guidance on the accounting by operators for public-to-private service concession arrangements. This Interpretation sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements and in doing so focuses on the following issues: (a) treatment of the operator's rights over the infrastructure; (b) recognition and measurement of arrangement consideration, (c) construction or upgrade services, (d) operation services; (e) borrowing costs; (f) subsequent accounting treatment of a financial asset and an intangible asset; and (g) items provided by the operator to the grantor. An entity shall apply IFRIC 12 for annual periods beginning on or after January 1, 2008. The Company understands that the adoption of IFRIC 12 does not have any impact on its consolidated financial statements.

IFRIC 13 - Customer Loyalty Programmes

In July 2007, the IFRIC issued Interpretation 13, which addresses the loyalty programs used by entities to grant their customers incentives for the purchase of goods or services. An entity shall apply IFRIC 13 for annual periods beginning on or after July 1, 2008. The Company understands that the adoption of IFRIC 13 does not have any impact on its consolidated financial statements.

IFRIC 14 - IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

In July 2007, the IFRIC issued Interpretation 14, which addresses the measurement of defined benefit plans and the measurement of available economic benefits. An entity shall apply IFRIC 14 for annual periods beginning on or after January 1, 2008. The Company understands that the adoption of IFRIC 14 does not have any impact on its consolidated financial statements.

3. CONSOLIDATED FINANCIAL STATEMENTS

The Company fully consolidated the financial statements of all its subsidiaries. There is control when the Company holds, directly or indirectly, most of the voting rights at the Shareholders' Meeting or has the power to determine the financial and operational policies, to obtain benefits from its activities.

The consolidated financial statements as of December 31, 2007 and 2006 include the accounts of the Company and the following subsidiaries:

Subsidiary	Ownership interest %	Country	Main activity
Rominor - Comércio, Empreendimentos e Participações S.A. ("Rominor")	93.0711%	Brazil	Ventures and equity interests in general
Romi Machine Tools, Ltd. ("Romi Machine Tools")	100%	United States of America	Distribution of machine tools and cast and machined products in North America
Interocean Comercial Importadora e Exportadora S.A. ("Interocean")	100%	Brazil	Trading company, not operating in the reporting periods
Romi Europa GmbH ("Romi Europa")	100%	Germany	Technical assistance and support to dealers in Europe, Asia, Africa, and Oceania
Favel S.A. ("Favel")	100%	Uruguay	Sales representation for Latin America

The table below shows the main captions of the balance sheets and statements of income as of and for the years ended December 31, 2007 and 2006 of the consolidated operating subsidiaries. The financial statements of the subsidiaries Interocean, Romi Europa and Favel are not presented because of the immateriality of the balances.

	Rominor		Romi Machine Tools	
	2007	2006	2007	2006
Assets				
Current assets	22,895	13,782	18,185	15,316
Noncurrent assets	6,624	9,119	368	124
Total assets	29,519	22,901	18,553	15,440
Liabilities				
Current liabilities	2,523	1,920	17,142	13,426
Noncurrent liabilities	-	-	162	7
Shareholders' equity	26,996	20,981	1,249	2,007
Total liabilities and shareholders' equity	29,519	22,901	18,553	15,440
	2007	2006	2007	2006
Net operating revenue	8,859	5,837	16,781	19,066
Gross profit	8,705	4,986	2,785	3,504
Income (loss) from operations	9,452	4,986	(414)	(632)
Income (loss) before taxes	9,452	4,955	(414)	(885)
Net income (loss)	8,019	3,956	(414)	(914)

Intercompany balances and transactions have been eliminated in consolidation using the following main procedures:

a) Elimination of intercompany balances.

b) Elimination of intercompany inventory profits, when material.

c) Elimination of the Company's investments with the subsidiaries' capital, reserves and retained earnings balances.

d) Elimination of intercompany transactions.

e) Recording of minority interest in a separate caption in the consolidated financial statements.

4. TRANSITION TO IFRS

4.1. IFRS Transition Basis

4.1.1. Application of IFRS 1

The Company's financial statements for the year ended December 31, 2007 are the first to be presented in accordance with IFRS. These Consolidated Financial Statements have been prepared in accordance with IFRS 1, as described in note 2.1..

The Company prepared its opening balance sheet with the transition date of January 1, 2006. The reference date of these Consolidated Financial Statements is December 31, 2007.

In preparation of the Financial Statements on the transition date in accordance with IFRS 1, the Company applied the mandatory exceptions and certain optional exemptions of full retrospective application of the IFRS.

4.1.2. Exemptions to the full retrospective application chosen by the Company

a) Exemption for presenting the fair value of fixed assets as acquisition cost: The Company opted not to remeasure its fixed assets on the transition date at the fair value and, consequently, derecognized the revaluation recorded in 1998 and 1994, and maintained the acquisition cost adopted under BRGAAP as fixed asset amount, monetarily adjusted in accordance with IAS 21 and IAS 29.

b) Exemption for presenting cumulative translation adjustments: The Company opted not to remeasure the cumulative foreign currency translation adjustments for periods prior to the IFRS transition date, and all the effects arising from the translation of the subsidiaries' and investees' financial statements using a functional currency different from the Company's reporting currency are stated as retained earnings in the opening balance sheet. From the IFRS transition date, the Company recognized the translation adjustments directly under a specific caption of shareholders' equity.

c) Exemption related to measuring the compound financial instruments: The Company does not have compound financial instruments on the IFRS transition date.

d) Exemption related to the recognition of investments in subsidiaries: The Company's subsidiaries on the transition date do not have financial statements under IFRS and, for this reason, the Company opted to adopt the same IFRS transition date.

e) Exemption related to the classification of financial instruments: The Company opted to classify and assess its financial instruments according to IAS 32 and IAS 39 on the IFRS transition date, and retrospective analysis to the original contracting date of the current financial instruments were not done on the IFRS transition date. All financial instruments contracted after the transition date were analyzed and classified on the contract date of the operations according to IFRS.

f) Exemption for business combination: The Company opted not to remeasure the business acquisitions that took place before the IFRS transition date in compliance with IFRS 3; therefore, the goodwill arising from acquisitions before that date measured as of December 31, 2005 was kept in accordance with Brazilian accounting practices (BRGAAP). The negative goodwill recorded before the adoption of IFRS was reversed as a contra entry to a specific caption in shareholders' equity.

4.2. Reconciliation between IFRS and BRGAAP

Description of the main differences between IFRS and BRGAAP that affect the Company's Financial Statements:

a) Financial instruments: According to IFRS, all financial assets are initially recognized at fair value. Usually, fair value is the consideration delivered (in the case of assets) or the consideration received (in the case of liabilities). The fair value of a financial asset should include the transaction costs, unless such assets are subsequently measured at fair value with a contra entry to profit or loss. Financial assets are classified into one of the following four categories:

- Financial assets at fair value through profit or loss: can be divided into the two subcategories: Financial assets held for trading and financial assets designated at fair value through profit or loss at their initial recognition. Financial assets held for trading include those acquired or generated for the purpose of selling in the near term, or those which are part of a class of assets with these features. Financial assets designated at fair value through profit or loss are those which an entity voluntarily decided to classify in this fair value subcategory against profit or loss, upon their initial recognition and only at that time, regardless of their nature or features;

- Loans and receivables: include financial assets or liabilities that have fixed or determinable payments that are not quoted in an active market;

- Held-to-maturity financial assets: financial assets that have fixed or determinable payments, with a maturity date, that an entity has the intent and financial ability to hold them to maturity;

- Available-for-sale financial assets: all assets that have not been classified in the categories above.

Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

The measurement of the financial assets depends on their classification, as follows:

- Financial assets at fair value through profit or loss: accounted for at fair value with a contra entry to profit or loss;

- Loans and receivables - FINAME manufacturer financing, trade accounts receivable, and onlending of FINAME manufacturer financing: accounted for at amortized cost;

- Held-to-maturity financial assets: accounted for at amortized cost;

- Available-for-sale financial assets: accounted for at fair value with a contra entry to equity.

Under the BRGAAP, financial instruments, including securities, are recognized at cost, plus income earned through the balance sheet dates, based on the rates agreed with the financial institutions, and do not exceed market value. This criterion differs from measurement at fair value. An amendment to Brazilian Corporate Law equaled the BRGAAP accounting treatment to the IFRS criteria, effective 2008.

b) Property, plant and equipment: Under the IFRS, upon the application of IFRS 1, the Company used the exemption for presenting the fair value of property, plant and equipment as acquisition cost and, therefore, derecognized the balance of revaluations recorded in 1988 and 1994, and the related effects of deferred income tax liabilities as a contra entry to shareholders' equity under the caption "revaluation reserve", which were never restated as this was not mandatory under the BRGAAP.

Under the BRGAAP, property, plant and equipment include the revaluation write-up; Law No. 11638/07 of December 28, 2007, effective for the years ending on or after December 31, 2008, requires the elimination of the revaluation reserve, and any balances in the revaluation reserve will be maintained until its effective realization or reversed by the end of the fiscal year in which the Law comes into effect. The Company decided that, for BRGAAP purpose, during the year ending December 31, 2008, it will reverse this reserve and the related effect of deferred income tax liabilities.

c) Income and social contribution taxes: According to IFRS, the effects of income tax should be reflected in the Financial Statements in the same periods in which the assets and liabilities that generated these effects were accounted for. The differences between the book bases (presented in the accounting positions) and tax bases (deductible or taxable amount for income tax purposes) of assets and liabilities are classified as temporary or permanent differences. Deferred income tax assets should only be recognized only when it is probable that they will be realized against taxable income to be generated in the future. Deferred tax assets and liabilities should always be classified as noncurrent and should not be discounted (note 19).

According to BRGAAP, deferred tax assets on tax loss carryforwards and temporary differences are allowed to the extent that their realization is probable and whenever the following conditions are met: (a) taxable income is reported in at least three of the last five years and, (b) future taxable income is expected based on a feasibility study that shows that the deferred tax assets can be realized within a maximum of 10 years (or shorter period allowed by legislation), considering future income at present value. Deferred tax liabilities are recognized for temporary differences, except when they refer to differences in the value of assets not held for sale. Deferred tax assets and liabilities should be classified as current or noncurrent based on their realizability.

d) Capital and Capital reserves: under the IFRS (IAS 29) Capital and Capital reserves were adjusted based on the IGP-M (general market price index) variation in 1996 and 1997.

e) Recognition of dividends and interest on capital: under the IFRS, dividends or interest on capital proposed or declared after the balance sheet date but before the authorization for the disclosure of the financial statements shall not be recognized as liabilities, unless they meet the definition of liabilities at the balance sheet date.

Under the BRGAAP, a liability for the dividends and interest on capital proposed by management and which will be submitted to the approval by the shareholders after yearend, must be recognized in balance sheet at yearend.

f) Recognition of exchange variation on foreign investments: Under the IFRS, exchange variation on foreign investments, as well as on the shareholders' equity balance of consolidated companies with a functional currency different from the parent company's functional currency, must be recognized directly in shareholders' equity, under a specific caption called "Cumulative foreign currency translation adjustments".

Under the BRGAAP, this variation must be recognized in the statement of income, under the caption equity in subsidiaries, until December 31, 2007, and with the enactment of Law No. 11638/07, on December 28, 2007, this exchange variation must also be recognized in shareholders' equity.

g) Statements of cash flows and changes in financial position: Under the IFRS, a cash flow statement is required from all entities, and IFRS has no concept equivalent to the statement of changes in financial position.

According to BRGAAP, the statement of cash flows is not obligatory and can be presented as additional information, which has been performed by the Company. Brazilian regulations are less detailed than IFRS. On the other hand, the presentation of the statement of changes in financial position is mandatory, so as to show changes in working capital. An amendment to Brazilian Corporate Law equaled the BRGAAP accounting treatment to the IFRS criteria, effective 2008.

h) Segment reporting: According to IFRS, publicly traded companies are required to present information per business segment. Business segment is a differentiated component of a company that offers specific products and services or a group of products and services that are subject to different risks and returns from other business segments. Geographic segment is a differentiated component of a company that offers specific products and services or a group of products and services that are subject to different risks and returns from other market environments. An entity must provide segment information in two formats: primary segment and secondary segment. The origin and nature of a company's risks and returns must determine whether the primary segment is "business" or "geographic", taking into account the importance of these segments in relation to the risk and return of the company. The internal organizational and management structure of a company, as well as its financial reporting systems, should normally be used to determine its primary and/or secondary segments. A business or geographic segment must be disclosed if the majority of the recorded revenues has derived from sales to external customers and represents at least 10% of total revenues, both internal and external, of all segments; or 10% of the combined revenue of all segments; or 10% of the total assets of all segments. Information shall be provided on additional segments if the total external revenue attributable to the segments on which information has been provided account for less than 75% of total consolidated or company's revenues. Information per segment shall be prepared in accordance with the accounting practices adopted in the preparation and presentation of the Company's financial statements. The disclosure of information for the primary segment shall be more detailed than for the secondary segment. The following principal information shall be provided for each primary segment: revenue (external and segment), net income, total assets, total liabilities, total acquisitions of permanent assets, depreciation and amortization in the period, and total expenditure not involving cash disbursements. In the case of the secondary segment, the information to be provided generally includes total revenues, assets and acquisitions of permanent assets and does not include the net income of the segment. A reconciliation of information per segment and the aggregate information included in the financial statements shall also be disclosed.

   According to BRGAAP, there are no specific rules for the presentation of information per segment. The disclosure is encouraged by the regulator of the Brazilian capital market, but there are no specific regulations.

i) Earnings per share: According to IFRS, publicly traded entities shall disclose basic and diluted earnings per share.

   Basic earnings per share are calculated by dividing the net income for the year attributed to shareholders by the weighted average of outstanding shares during the year, including the issue of subscription warrants.

   An entity shall calculate diluted earnings per share taking into account the net income attributable to shareholders and the weighted average of outstanding shares, plus effects of all potential shares. All instruments and contracts that can result in the issue of shares are considered to be potential shares.

   Comparative figures shall be adjusted to reflect capitalizations, issue of subscription warrants or stock splits. If these alterations occur after the date of the balance sheet but before the authorization for the issuance of Financial Statements, then the calculation per stock of these or any Financial Statements for previous periods shall be based on the new number of shares.

According to BRGAAP, earnings per share are calculated by dividing the net income for the year by the number of outstanding shares at the end of the year. The concept of diluted earnings per share does not exist. The prior periods' figures must not be adjusted for stock splits or reverse stock splits or similar transactions.

j) Expenses on public offering of shares: Under IFRS, expenses on the public offering of shares, which in 2007 totaled R$ 12,963, should be classified as shareholders' equity.

Under BRGAAP, expenses on public offering of shares should be recorded in the statement of income.

k) Negative goodwill on acquisition of companies: Under IFRS 3 and contrarily to the BRGAAP, there is no provision for maintenance of negative goodwill arising from acquisition of subsidiary Rominor in 1992 because the investment's acquisition price was lower than its book value, and thus this amount was adjusted, net of taxes, to shareholders' equity as of January 1, 2006.

l) Reclassifications: The main reclassifications made in the financial statements in compliance with IFRS are as follows:

- The balance of discounted notes and advanced billings were reclassified to loans and financing (current and noncurrent);
- The balance of other investments was reclassified to property, plant and equipment;
- Nonoperating income (expense) was reclassified to operating income (expense);
- Cash flows, interest on loans and financing paid, and income and social contribution taxes paid were transferred to a specific caption;
- Escrow deposits were reclassified to noncurrent assets;
- Management profit sharing was reclassified to Management profit sharing and compensation.

CONSOLIDATED BALANCE SHEET AS OF JANUARY 1, 2006

ASSETS	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
CURRENT ASSETS				
Cash and cash equivalents	6,550	61,258	a	67,808
Temporary cash investments - trading securities	71,648	(61,258)	a	10,390
Trade accounts receivable	68,726	5,510	l	74,236
Onlending of FINAME manufacturer financing	119,228	-		119,228
Inventories	164,659	-		164,659
Recoverable taxes	5,678	-		5,678
Other receivables	4,195	-		4,195
Total current assets	440,684	5,510		446,194

ASSETS	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
NONCURRENT ASSETS				
Long-term assets:				
Trade accounts receivable	39	414	l	453
Onlending of FINAME manufacturer financing	108,123	-		108,123
Recoverable taxes	4,428	-		4,428
Deferred income and social contribution taxes	5,474	-		5,474
Other receivables	2,284	-		2,284
Escrow deposits	-	701	l	701
Property, plant and equipment, net	117,250	(41,136)	b	76,114
Total noncurrent assets	237,598	(40,021)		197,577
TOTAL ASSETS	678,282	(34,511)		643,771

CONSOLIDATED BALANCE SHEET AS OF JANUARY 1, 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
CURRENT LIABILITIES				
Loans and financing	18,750	5,510	l	24,260
FINAME manufacturer financing	103,586	-		103,586
Trade accounts payable	21,120	-		21,120
Advances from customers	11,946	-		11,946
Payroll and related charges	21,339	-		21,339
Taxes payable	9,852	-		9,852
Dividends, interest on capital and profit sharing	3,612	-		3,612
Other payables	2,801	-		2,801
Total current liabilities	193,006	5,510		198,516
NONCURRENT LIABILITIES				
Loans and financing	11,362	414	l	11,776
FINAME manufacturer financing	90,322	-		90,322
Deferred income and social contribution taxes on revaluation reserve	9,013	(9,013)	b	-
Reserve for contingencies	4,494	701	l	5,195
Deferred income tax	-	1,404		1,404
Negative goodwill of subsidiaries	4,199	(4,199)	k	-
Total noncurrent liabilities	119,390	(10,693)		108,697
SHAREHOLDERS' EQUITY				
Capital	220,000	15,791	d	235,791
Capital reserve	2,052	157	d	2,209
Revaluation reserve	31,999	(31,999)	b	-
Profit reserve	110,547	13,269	b,d,k	97,278
Shareholders' equity (Company)	364,598	(29,320)		335,278
MINORITY INTEREST	1,288	(8)	b	1,280
TOTAL SHAREHOLDERS' EQUITY	365,886	(29,328)		336,558
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	678,282	(34,511)		643,771

SHAREHOLDERS' EQUITY RECONCILIATION - BRGAAP X IFRS AS OF JANUARY 1, 2006

Shareholders' equity (excluding minority interest) under BRGAAP		364,598
Adjustments under IFRS:	Note 4.2.	
Reversal of revaluation reserve - Company	b	(31,999)
Reversal of revaluation reserve of the subsidiary Rominor	b	(116)
Reversal of negative goodwill of the subsidiary Rominor	k	4,199
Deferred income and social contribution taxes on reversal of negative goodwill of the subsidiary Rominor	k	(1,404)
Shareholders' equity (excluding minority interest) under IFRS		335,278

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006

ASSETS	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
CURRENT ASSETS				
Cash and cash equivalents	7,461	63,608	a	71,069
Temporary cash investments - trading securities	79,461	(63,608)	a	15,853
Trade accounts receivable	46,265	2,897	l	49,162
Onlending of FINAME manufacturer financing	170,908	-		170,908
Inventories	169,790	-		169,790
Recoverable taxes	7,032	-		7,032
Deferred income and social contribution taxes	1,033	(1,033)	c	-
Other receivables	2,047	-		2,047
Total current assets	483,997	1,864		485,861
NONCURRENT ASSETS				
Long-term assets:				
Onlending of FINAME manufacturer financing	259,578	-		259,578
Recoverable taxes	7,105	-		7,105
Deferred income and social contribution taxes	5,069	1,033	c	6,102
Escrow deposits	-	1,049	l	1,049
Other receivables	3,223	9		3,232
Investments in subsidiaries, negative goodwill and goodwill	9	(9)		-
Property, plant and equipment, net	156,015	(38,721)	b	117,294
Total noncurrent assets	430,999	(36,639)		394,360
TOTAL ASSETS	914,996	(34,775)		880,221

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
CURRENT LIABILITIES				
Loans and financing	5,788	2,897	l	8,685
FINAME manufacturer financing	149,240	-		149,240
Trade accounts payable	18,151	-		18,151
Payroll and related charges	25,880	-		25,880
Taxes payable	8,884	(803)	b	8,081
Advances from customers	4,628	-		4,628
Dividends, interest on capital and profit sharing	85,329	(31,158)	e	54,171
Other payables	2,337	-		2,337
Total current liabilities	300,237	(29,064)		271,173
NONCURRENT LIABILITIES				
Loans and financing	23,825	-		23,825
FINAME manufacturer financing	232,154	-		232,154
Deferred income and social contribution taxes on revaluation reserve	7,389	(7,389)	b	-
Reserve for contingencies	4,429	1,049	l	5,478
Deferred income tax	-	1,404	k	1,404
Negative goodwill of subsidiaries	4,199	(4,199)	k	-
Total noncurrent liabilities	271,996	(9,135)		262,861
SHAREHOLDERS' EQUITY				
Capital	260,000	15,791	d	275,791
Capital reserve	2,052	157	d	2,209
Revaluation reserve	30,405	(30,405)	b	-
Cumulative foreign currency translation adjustments	-	(267)	f	(267)
Profit reserve	48,844	18,156	b,d,e,f, k	67,000
Shareholders' equity (Company)	341,301	3,432		344,733
MINORITY INTEREST	1,462	(8)	b	1,454
TOTAL SHAREHOLDERS' EQUITY	342,763	3,424		346,187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	914,996	(34,775)		880,221

RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 Corporate	Adjustments IFRS	Note 4.2.	2006 IFRS
Domestic market	599,100	-		599,100
Foreign market	65,434	-		65,434
GROSS OPERATING REVENUE	664,534	-		664,534
TAXES ON SALES	(115,586)	-		(115,586)
NET OPERATING REVENUE	548,948	-		548,948
COST OF SALES	(312,401)	1,991	b	(310,410)
GROSS PROFIT	236,547	1,991		238,538
OPERATING INCOME (EXPENSES)				
Selling expenses	(58,076)	-		(58,076)
General and administrative expenses	(45,058)	373	b	(44,685)
Research and development expenses	(21,105)	-		(21,105)
Management profit sharing and compensation	(7,395)	(3,100)	l	(10,495)
Tax expenses	(4,997)	-		(4,997)
Other income	-	481	l	481
	(136,631)	(2,246)		(138,877)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)	99,916	(255)		99,661
Financial income	13,282	-		13,282
Financial expenses	(2,572)	-		(2,572)
Exchange gains	891	-		891
Exchange losses	(1,460)	-		(1,460)
	10,141	-		10,141
INCOME FROM OPERATIONS	110,057	(255)		109,802
NONOPERATING INCOME, NET	163	(163)	b,l,f	-
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	110,220	(418)		109,802
INCOME AND SOCIAL CONTRIBUTION TAXES	(23,924)	(821)		(24,745)
Current	(24,552)	(821)	b	(25,373)
Deferred	628	-		628
Management profit sharing	(3,100)	3,100	l	-
NET INCOME	83,196	1,861		85,057
ATTRIBUTED TO:				
Controlling shareholders’ equity	82,921	1,861		84,782
Minority interest	275	-		275
	83,196	1,861		85,057

RECONCILIATION OF CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 BRGAAP Corporate	IFRS Adjustments	Note 4.2.	2006 IFRS Corporate
Cash flows from operating activities:				
Net income	83,196	1,861	b,f	85,057
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation	11,488	(2,364)	b	9,124
Allowance for doubtful accounts	739	-		739
Loss (gain) on sale of property, plant and equipment	1,098	(51)	b	1,047
Interest on trade accounts receivable, trade accounts payable, and loans and financing	630	2,161	l	2,791
Exchange variation on trade accounts receivable, trade accounts payable, and loans and financing	(827)	(267)	f	(1,094)
Deferred income and social contribution taxes	(628)	-		(628)
Income and social contribution taxes on realization of revaluation reserve	(821)	821	b	-
Provision for inventory losses	2,263	-		2,263
Reserve for contingencies, net	(65)	-		(65)
Increase (decrease) in assets:				
Temporary cash investments in trading securities	-	(5,463)	a	(5,463)
Trade accounts receivable	25,422	(2,897)	l	22,525
Onlending of FINAME manufacturer financing	(203,135)	-		(203,135)
Inventories	(7,394)	-		(7,394)
Recoverable taxes, net	(4,031)	-		(4,031)
Other receivables	1,209	(9)		1,200
Increase (decrease) in liabilities:				
Trade accounts payable	(2,871)	-		(2,871)
Payroll and related charges	4,541	-		4,541
Taxes payable	(1,771)	21,806	l	20,035
Advances from customers	(7,318)	-		(7,318)
Other payables	(464)	-		(464)
Net cash used in operating activities	(98,739)	15,598		(83,141)
Payment of interest on loans and financing	-	(2,161)	l	(2,161)
Payment of income and social contribution taxes	-	(21,806)	l	(21,806)
Net cash used in operating activities	(98,739)	(8,369)		(107,108)
Cash flows from investing activities:				
Purchases of property, plant and equipment	(51,554)	-		(51,554)
Sale of property, plant and equipment	203	-		203
Goodwill on acquisition of shares of Rominor	(9)	9		-
Net cash used in investing activities	(51,360)	9		(51,351)
Cash flows from financing activities:				
Interest on capital and dividends paid	(24,602)	-		(24,602)
Borrowings	17,496	2,897	l	20,393
Repayment of loans and financing	(15,482)	-		(15,482)
Increase in FINAME manufacturer financing	299,477	-		299,477
Repayment of FINAME manufacturer financing	(118,066)	-		(118,066)
Net cash provided by financing activities	158,823	2,897		161,720
Increase in cash and cash equivalents and temporary cash investments	8,724	(5,463)		3,261
Cash and cash equivalents and temporary cash investments - beginning of year	78,198	(10,390)	a	67,808
Cash and cash equivalents and temporary cash investments end of year	86,922	(15,853)		71,069

RECONCILIATION OF SHAREHOLDERS' EQUITY AS OF DECEMBER 31, 2006

Shareholders' equity (excluding minority interest) under BRGAAP		341,301
Adjustments under IFRS:	Note 4.2.	
Reversal of revaluation reserve - Company	b	(30,405)
Reversal of revaluation reserve of the subsidiary Rominor	b	(116)
Reversal of interest on capital not included in minutes	e	31,158
Reversal of negative goodwill of the subsidiary Rominor	k	4,199
Deferred income and social contribution taxes on reversal of negative goodwill of the subsidiary Rominor	k	(1,404)
Shareholders' equity (excluding minority interest) under IFRS		344,733

RECONCILIATION OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2006

Net income under BRGAAP		83,196
Adjustments under IFRS:	Note 4.2.	
Transfer of exchange variation on foreign investments to shareholders' equity	f	267
Reversal of realization of revaluation reserve	b	1,594
Net income under IFRS		85,057

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

ASSETS	2007 Corporate	Adjustments IFRS	Note 4.2.	2007 IFRS
CURRENT ASSETS				
Cash and cash equivalents	16,174	172,836	a	189,010
Temporary cash investments - trading securities	284,348	(172,836)	a	111,512
Trade accounts receivable	62,888	1,356	l	64,244
Onlending of FINAME manufacturer financing	223,221	-		223,221
Inventories	183,044	-		183,044
Recoverable taxes	11,537	-		11,537
Deferred income and social contribution taxes	2,149	(2,149)	c	-
Other receivables	3,479	-		3,479
Total current assets	786,840	(793)		786,047
NONCURRENT ASSETS				
Long-term assets:				
Trade accounts receivable	1,149	987	l	2,136
Onlending of FINAME manufacturer financing	409,896	-		409,896
Recoverable taxes	5,391	-		5,391
Deferred income and social contribution taxes	5,867	2,149	c	8,016
Escrow deposits	-	7,087	l	7,087
Other receivables	2,928	-		2,928
Other investments	8,389	(8,389)	l	-
Property, plant and equipment, net	157,590	(27,924)	b	129,666
Total noncurrent assets	591,210	(26,090)		565,120
TOTAL ASSETS	1,378,050	(26,883)		1,351,167

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

LIABILITIES AND SHAREHOLDERS' EQUITY	2007 Corporate	Adjustments IFRS	Note 4.2.	2007 IFRS
CURRENT LIABILITIES				
Loans and financing	29,498	1,356	l	30,854
FINAME manufacturer financing	192,884	-		192,884
Trade accounts payable	25,193	-		25,193
Payroll and related charges	35,934	-		35,934
Taxes payable	8,816	(803)	b	8,013
Advances from customers	9,702	-		9,702
Dividends, interest on capital and profit sharing	6,775	-		6,775
Other payables	4,640	-		4,640
Total current liabilities	313,442	553		313,995
NONCURRENT LIABILITIES				
Loans and financing	49,306	987	l	50,293
FINAME manufacturer financing	348,710	-		348,710
Deferred income and social contribution taxes on revaluation reserve	6,570	(6,570)	b	-
Reserve for contingencies	1,659	7,087	l	8,746
Taxes payable	1,896			1,896
Deferred income and social contribution taxes	-	1,404	k	1,404
Negative goodwill of subsidiaries	4,199	(4,199)	k	-
Total noncurrent liabilities	412,340	(1,291)		411,049
SHAREHOLDERS' EQUITY				
Capital	502,936	2,828	d	505,764
Capital reserve	2,052	157	d	2,209
Revaluation reserve	28,816	(28,816)	b	-
Cumulative foreign currency translation adjustments	-	(968)	f	(968)
Profit reserve	116,585	662	b,d,k,f	117,247
Shareholders' equity (Company)	650,389	(26,137)		624,252
MINORITY INTEREST	1,879	(8)	b	1,871
TOTAL SHAREHOLDERS' EQUITY	652,268	(26,145)		626,123
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,378,050	(26,883)		1,351,167

RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2007

	2007 Corporate	Adjustments IFRS	Note 4.2.	2007 IFRS
Domestic market	679,099	-		679,099
Foreign market	82,057	-		82,057
GROSS OPERATING REVENUE	761,156	-		761,156
TAXES ON SALES	(129,168)	-		(129,168)
NET OPERATING REVENUE	631,988	-		631,988
COST OF SALES	(361,947)	2,072	b	(359,875)
GROSS PROFIT	270,041	2,072		272,113
OPERATING INCOME (EXPENSES)				
Selling expenses	(59,786)	-		(59,786)
General and administrative expenses	(45,792)	336	b	(45,456)
Research and development expenses	(26,340)	-		(26,340)
Management profit sharing and compensation	(8,025)	(4,400)	l	(12,425)
Tax expenses	(6,742)	-		(6,742)
Other income	-	1,031	l	1,031
	(146,685)	(3,033)		(149,718)
INCOME FROM OPERATIONS BEFORE PUBLIC STOCK OFFERING EXPENSES	123,356	(961)		122,395
Public stock offering expenses	(12,963)	12,963	j	-
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)	110,393	12,002		122,395
Financial income	30,508	-		30,508
Financial expenses	(5,048)	-		(5,048)
Exchange gains	(3,796)	-		(3,796)
Exchange losses	6,258	-		6,258
	27,922	-		27,922
INCOME FROM OPERATIONS	138,315	12,002		150,317
NONOPERATING INCOME (EXPENSES), NET	330	(330)	f,l	-
INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	138,645	11,672		150,317
INCOME AND SOCIAL CONTRIBUTION TAXES	(24,724)	(819)		(25,543)
Current	(26,638)	(819)	b	(27,457)
Deferred	1,914	-		1,914
Management profit sharing	(4,400)	4,400	l	-
NET INCOME	109,521	15,253		124,774
ATTRIBUTED TO:				
Controlling shareholders’ equity	108,966	15,253		124,219
Minority interest	555	-		555
	109,521	15,253		124,774

RECONCILIATION OF CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2007

	2007 Corporate	Adjustments	Note 4.2.	2007 IFRS
Cash flows from operating activities:				
Net income	109,521	15,253	b,f,j,l	124,774
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation	14,263	(2,408)	b	11,855
Allowance for doubtful accounts	480	-		480
Loss (gain) on sale of property, plant and equipment	(103)	-		(103)
Interest on trade accounts receivable, trade accounts payable, and loans and financing	(443)	3,293	l	2,850
Exchange variation on trade accounts receivable, trade accounts payable, and loans and financing	(2,337)	(701)	l	(3,038)
Deferred income and social contribution taxes	(1,914)	-		(1,914)
Income and social contribution taxes on realization of revaluation reserve	(819)	819	b	-
Provision for inventory losses	(1,428)	-		(1,428)
Reserve for contingencies, net	(2,770)	-		(2,770)
Increase (decrease) in assets:		-		-
Cash investments redeemable after 90 days	(9,467)	9,467	a	-
Temporary cash investments in trading securities	-	(95,659)	a	(95,659)
Trade accounts receivable	(16,595)	2,343	l	(14,252)
Onlending of FINAME manufacturer financing	(202,631)	-		(202,631)
Inventories	(11,826)	-		(11,826)
Recoverable taxes, net	(2,791)	-		(2,791)
Other receivables	(1,137)	9		(1,128)
Increase (decrease) in liabilities:				
Trade accounts payable	7,275	-		7,275
Payroll and related charges	10,054	-		10,054
Taxes payable	1,828	23,357	l	25,185
Advances from customers	5,074	-		5,074
Other payables	2,303	-		2,303
Net cash used in operating activities	(103,463)	(44,227)		(147,690)
Payment of interest on loans and financing	-	(3,293)	l	(3,293)
Payment of income and social contribution taxes	-	(23,357)	l	(23,357)
Net cash used in operating activities	(103,463)	(70,877)		(174,340)
Cash flows from investing activities:				
Purchases of property, plant and equipment	(27,716)	-		(27,716)
Sale of property, plant and equipment	3,592	-		3,592
Goodwill on acquisition of shares of Rominor	9	(9)		-
Net cash used in investing activities	(24,115)	(9)		(24,124)
Cash flows from financing activities:				
Interest on capital and dividends paid	(121,506)	-		(121,506)
Borrowings	58,984	(2,343)	l	56,641
Capital increase with issue of shares	242,936	(12,963)	j	229,973
Repayment of loans and financing	(8,903)	-		(8,903)
Increase in FINAME manufacturer financing	327,342	-		327,342
Repayment of FINAME manufacturer financing	(167,142)	-		(167,142)
Net cash provided by financing activities	331,711	(15,306)		316,405
Increase in cash and cash equivalents and temporary cash investments	204,133	(86,192)		117,941
Cash and cash equivalents and temporary cash investments - beginning of year	86,922	(15,853)	a	71,069
Cash and cash equivalents and temporary cash investments - end of year	291,055	(102,045)		189,010

RECONCILIATION OF SHAREHOLDERS' EQUITY AS OF DECEMBER 31, 2007

	Note 4.2.	
Shareholders' equity (excluding minority interest) under BRGAAP		650,389
Adjustments under IFRS:		
Reversal of revaluation reserve - Company	b	(28,816)
Reversal of revaluation reserve of the subsidiary Rominor	b	(116)
Reversal of negative goodwill of the subsidiary Rominor	k	4,199
Deferred income and social contribution taxes on reversal of negative goodwill of the subsidiary Rominor	k	(1,404)
Shareholders' equity (excluding minority interest) under IFRS		624,252

RECONCILIATION OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2007

Net income under BRGAAP		109,521
Adjustments under IFRS:	Note 4.2.	
Transfer of exchange variation on foreign investments to shareholders' equity	f	701
Reversal of realization of revaluation reserve	b	1,589
Transfer of expenses on public offering of shares to shareholders' equity	j	12,963
Net income under IFRS		124,774

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, banks and short-term, highly liquid investments with original maturities of 90 days or less and low risk of variation in market value.

	2007	2006
Cash and banks	16,174	7,461
Temporary cash investments	172,836	63,608
	189,010	71,069

6. TRADE ACCOUNTS RECEIVABLE

	2007	2006
Current assets:		
Domestic customers	44,182	33,615
Foreign customers	21,681	16,944
Allowance for doubtful accounts	(1,619)	(1,397)
	64,244	49,162
Noncurrent assets:		
Domestic customers	889	-
Foreign customers	1,247	-
	2,136	-

The Company's maximum exposure to credit risk is the amount shown above, net of allowance for doubtful accounts.

The credit risk of trade receivables arises from the possibility that the Company does not receives the amounts resulting from sales transactions. To mitigate this risk, the Company adopts the procedure of analyzing in detail the financial position of its customers, establishing a credit limit and constantly monitoring their balances. The allowance for doubtful accounts is calculated based on a risk assessment, which considers historical losses, each customer's financial position and the financial position of the economic group to which they belong, guarantees and legal counsel's opinion, and is considered sufficient to cover any losses on accounts receivable.

The Company has R$ 2,017 as of December 31, 2007 (R$ 6,127 as of December 31, 2006) in sale financing transactions with its customers. In these transactions the Company is jointly liable for the financing repayment. In the event of the customer's default, the Company is liable for the payment and the equipment pledged to the financial institution is transferred to the Company.

The balance of trade accounts receivable from domestic customers as of December 31, 2007 and 2006 is as follows:

	2007	2006
Current	35,004	28,190
Past-due:		
1 to 30 days	5,667	3,498
31 to 60 days	1,765	1,107
61 to 90 days	33	11
91 to 180 days	712	86
181 to 360 days	545	398
Over 360 days	456	325
Total past-due	9,178	5,425
Total trade accounts receivable	44,182	33,615

The balance of trade accounts receivable from foreign customers as of December 31, 2007 and 2006 is as follows:

	2007	2006
Current	16,012	12,031
Past-due:		
1 to 30 days	3,742	3,825
31 to 60 days	900	512
61 to 90 days	619	256
91 to 180 days	381	320
181 to 360 days	27	-
Total past-due	5,669	4,913
Total trade accounts receivable	21,681	16,944

The changes in the allowance for doubtful accounts are as follows:

Balance as of January 1, 2006	1,082
Receivables accrued in the period	371
Receivables definitively written off	(56)
Balance as of December 31, 2006	1,397
Receivables accrued in the period	347
Receivables definitively written off	(125)
Balance as of December 31, 2007	1,619

7. ONLENDING OF FINAME MANUFACTURER FINANCING

		2007	2006
Current assets:			
FINAME falling due		200,726	158,650
FINAME awaiting release	(a)	10,551	3,954
FINAME past-due	(b)	11,944	8,304
		223,221	170,908
Noncurrent assets:			
FINAME awaiting release	(a)	63,304	29,454
FINAME falling due		346,592	230,124
		409,896	259,578
Total		633,117	430,486

Onlending of FINAME manufacturer financing arises from sales to customers that will be financed by funds obtained by the Company from the FINAME (National Equipment Financing Authority) (see note 12).

FINAME manufacturer financing refers to financing linked to sale operations, with maturities of up to 60 months, grace period of up to 12 months and interest of 4% to 5.8% per year + TJLP (Brazilian long-term interest rate), and these terms and conditions are established by the BNDES (National Bank for Economic and Social Development), according to the customer's characteristics. After identifying the customer and the sale and defining the customer's eligibility under BNDES Circular No. 195, of July 28, 2006, the BNDES, through a financial institution, releases the funds, under an agreement in the name of the Company and acceptance by the customer that will receive the financing. The amounts, terms and interest of the financing are fully reflected in the amounts receivable to be transferred to the financial institution. The Company had retention of title to the financed equipment.

Onlending of FINAME manufacturer financing is as follows:

a) FINAME awaiting release: Refers to FINAME manufacturer financing transactions that have already been qualified and approved by the parties, including preparation of documentation, issuance of the sales invoice, and delivery of the products to the customer. As of the financial statement dates, the financial institution had not deposited the related funds in the Company's checking account because of the usual operating times of the financial institution.

b) FINAME past-due: Refers to receivables not settled by the customers by the due date, considering the financial statement dates. The Company did not recognize an allowance for possible losses on the realization of this balance due to the retention of title to the machinery sold (collateral). The Company believes that in case of customer's default the value of the machinery would be sufficient to cover the total amount due by the customer.

As of December 31, 2007 and 2006, the Company and consolidated balances of "Onlending of FINAME manufacturer financing" are as follows:

	2007	2006
Past-due:		
1 to 30 days	2,846	2,451
31 to 60 days	1,248	1,081
61 to 90 days	1,092	901
91 to 180 days	1,940	1,857
181 to 360 days	2,624	1,268
Over 360 days	2,194	746
Total past-due	11,944	8,304
Current:		
2007	-	162,604
2008	211,277	-
Total current assets	223,221	170,908
Noncurrent:		
2008	-	117,303
2009	191,434	88,881
2010	151,163	52,936
2011	62,666	458
After 2011	4,633	-
Total noncurrent assets	409,896	259,578
Total	633,117	430,486

8. INVENTORIES

	2007	2006
Finished products	55,014	59,924
Work in process	71,404	66,487
Raw materials and components	65,273	51,504
Imports in transit	1,606	3,556
Provision for inventory losses	(10,253)	(11,681)
	183,044	169,790

The amount of the provision for inventory losses refers to slow-moving materials and components with remote likelihood of sale or use.

The changes in the provision for obsolescence and adjustment to fair value are as follows:

Balance as of January 1, 2006	9,418
Inventories permanently written off	(5,790)
Recognition of provision	8,053
Balance as of December 31, 2006	11,681
Inventories permanently written off	(8,308)
Recognition of provision	6,880
Balance as of December 31, 2007	10,253

9. RECOVERABLE TAXES

	2007	2006
Current assets:		
IRRF (withholding income tax) on temporary cash investments	2,354	856
IPI (federal VAT), PIS and COFINS (taxes on revenue)	3,915	3,335
ICMS (state VAT) on property, plant and equipment items	3,019	1,660
PIS and COFINS on property, plant and equipment items	2,172	1,103
Other	77	78
Total	11,537	7,032
Noncurrent assets:		
PIS and COFINS on property, plant and equipment items	2,675	3,311
ICMS on property, plant and equipment items	2,716	3,794
Company and consolidated	5,391	7,105

Recoverable taxes arise from business and financial transactions carried out by the Company and its subsidiaries and are realizable in the normal course of operations.

The expected realization of long-term tax credits is as follows:

	2007
2009	3,180
2010	1,872
2011	339
	5,391

10. PROPERTY, PLANT AND EQUIPMENT

a) Changes in consolidated property, plant and equipment are as follows:

Cost of gross property, plant and equipment	Land	Buildings and yards	Machinery and equipment	Furniture and fixtures	Vehicles	Information technology	Construction in progress	Advances	Total
Balances as of January 1, 2006	15,678	31,457	109,258	6,264	1,689	9,738	3,760	273	178,117
Additions	8,419	339	12,418	240	121	1,745	23,165	5,107	51,554
Sales	(98)	(165)	(1,175)	(32)	(39)	(223)	(3)	-	(1,735)
Transfers	-	2,756	1,476	22	-	-	(4,254)	-	-
Balance as of December 31, 2006	23,999	34,387	121,977	6,494	1,771	11,260	22,668	5,380	227,936
Additions	3,205	1,776	19,903	415	313	1,187	6,002	(5,085)	27,716
Sales	(2,347)	(388)	(1,674)	(160)	(132)	(539)	(46)	-	(5,286)
Transfers	-	23,258	2,636	1,012	30	36	(26,972)	-	-
Balance as of December 31, 2007	24,857	59,033	142,842	7,761	1,982	11,944	1,652	295	250,366
Accumulated depreciation:									
Balances as of January 1, 2006	-	21,868	67,015	4,479	1,221	7,420	-	-	102,003
Depreciation	-	966	6,684	284	163	1,027	-	-	9,124
Sales	-	(94)	(155)	(30)	(19)	(187)	-	-	(485)
Balance as of December 31, 2006	-	22,740	73,544	4,733	1,365	8,260	-	-	110,642
Depreciation	-	1,623	8,596	376	181	1,079	-	-	11,855
Sales	-	(29)	(954)	(158)	(131)	(525)	-	-	(1,797)
Balance as of December 31, 2007	-	24,334	81,186	4,951	1,415	8,814	-	-	120,700
Property, plant and equipment, net:									
Balance as of January 1, 2006	15,678	9,589	42,243	1,785	468	2,318	3,760	273	76,114
Balance as of December 31, 2006	23,999	11,647	48,433	1,761	406	3,000	22,668	5,380	117,294
Balance as of December 31, 2007	24,857	34,699	61,656	2,810	567	3,130	1,652	295	129,666

In view of the financing agreements with the BNDES for investment in property, plant and equipment, approximately R$ 15,974 as of December 31, 2007 and 2006 of property, plant and equipment items is pledged as collateral. These items are fully represented by machinery and equipment.

In 2007, the Company capitalized interest in the amount of R$ 215, recorded under the caption construction in progress.

b) Depreciation rates

The Company depreciates property, plant and equipment items under the straight-line method using the following depreciation rates:

	Depreciation rate (%)
Buildings	4
Machinery and equipment	10
Furniture and fixtures	10
Information technology	20
Vehicles	20
Yards	10

11. LOANS AND FINANCING

Working capital - foreign currency	Current		Noncurrent		Maturity	Amortization	Financial charges	Guarantees
	2007	2006	2007	2006			2007	
Import financing - US$	14,906	-	-	-	06/04/2008	Annual	Interest of 0.25% to 0.80% per year + LIBOR + exchange variation	Promissory note/surety
Export financing - US$	4,859	-	13,285	-	02/09/2010	Semiannual	0.80% per year + LIBOR + exchange variation	Promissory note/surety
Working capital - local currency	3,648	1,712	-	3,417	08/21/2008	Monthly beginning 09/21/2007	Interest of 2.5% per year + TJLP, paid monthly together with amortization of principal	Rominor's surety in the amount of R$ 3,232
Property, plant and equipment - local currency	1,557	54	27,672	10,006	09/15/2014	Monthly beginning 06/15/2008	Interest of 2% per year + TJLP, paid quarterly through May 2008 and monthly thereafter	Financed machinery, with book value of R$ 15,974, and property mortgage
FINAME sundry	4,489	4,011	8,187	10,393	07/16/2012	Monthly	Interest of 2% to 4% per year + TJLP, paid monthly together with amortization of principal	Financed machinery
Refinanced drafts	1,356	2,897	987	-	11/01/2010	Monthly	LIBOR + 1% spread	Customer collateral
Romi Machine Tools, Ltd. - Working capital - US$	39	11	162	9	06/30/2012	Semiannual	Interest of 6.31% to 6.39% per year + exchange variation	Promissory note/surety
Total	30,854	8,685	50,293	23,825				

As of December 31, 2006, as collateral for the financing the Company pledged machinery and equipment with book value of R$ 15,974 (see note 10).

The maturities of financing recorded in noncurrent liabilities as of December 31, 2007 and 2006 are as follows:

	2007	2006
2008	-	9,651
2009	18,979	5,216
2010	12,638	3,532
2011	6,488	5,426
2012	5,523	-
After 2012, through 2014	6,665	-
Total	50,293	23,825

12. FINAME MANUFACTURER FINANCING

	2007	2006
Current liabilities:		
FINAME manufacturer financing	192,884	149,240
Noncurrent liabilities:		
FINAME manufacturer financing	348,710	232,154

FINAME manufacturer financing agreements are collateralized by promissory notes and sureties, and the main guarantor is the subsidiary Rominor. The balances of FINAME manufacturer financing are directly linked to the balances of “Onlending of FINAME manufacturer financing” (see Note 7), considering that financing transactions are directly linked to sales to specific customers. The amounts, charges and periods of the financing are fully transferred to the customers receiving the financing, and monthly receipts arising from the caption “Onlending of FINAME manufacturer financing” are fully used to repay the related financing agreements. Therefore, the Company is the transferor of the funds to the banks intermediating the financing transactions, although it remains as the principal debtor of this financing.

FINAME manufacturer financing obtained and transferred to customers have maturities of up to 60 months, with the option of grace period of up to 12 months and interest of 4% to 5.8% per year + TJLP (Brazilian long-term interest rate), and these terms and conditions are established by the BNDES, according to the customer’s characteristics. The balances of FINAME manufacturer financing and, consequently, the balances of Onlending of FINAME manufacturer financing (see Note 7) as of December 31, 2007 and 2006 were monetarily adjusted through the financial statement date. The difference of R$ 91,523 as of December 31, 2007 (R$ 49,092 in 2006) between the balance of Onlending of FINAME manufacturer financing and the balance of FINAME manufacturer financing refers to past-due trade notes, renegotiations in progress for past-due accounts and FINAME transactions not yet released by the financial institution. Management believes that there are no collection risks associated with these receivables because they are collateralized by the financed machinery.

The maturities of FINAME manufacturer financing recorded in noncurrent liabilities as of December 31, 2007 and 2006 are as follows:

	2007	2006
2008	-	114,601
2009	177,367	77,029
2010	128,419	40,524
2011	41,773	-
2012	1,151	-
Total	348,710	232,154

13. FINANCIAL INSTRUMENTS

a) Significant accounting policies: The Company and its subsidiaries enter into transactions with financial instruments whose risks are managed by means of financial position strategies and exposure limit controls. Details on the significant accounting policies, including the recognition and measurement criteria related to each category of financial asset and liability are disclosed in note 2.

b) Categories of financial instruments

Financial assets	2007	2006
Held for trading:		
Temporary cash investments	111,512	15,853
Loans and receivables (including cash and cash equivalents):		
Cash and cash equivalents	189,010	71,069
Trade notes receivable	64,244	49,162
Onlending of FINAME manufacturer financing	223,221	170,908
Financial liabilities		
Other financial liabilities:		
Loans and financing	30,854	8,685
FINAME manufacturer financing	192,884	149,240

c) Risk factors that could affect the Company's and its subsidiaries' business:

Interest rate risk: this risk arises from the possibility of losses (or gains) due to fluctuations in interest rates applicable to the assets/investments and liabilities of the Company and its subsidiaries. In order to minimize possible impacts resulting from interest rate fluctuations, the Company and its subsidiaries have alternated between fixed rates and variable rates, such as Libor and the CDI (interbank deposit rate) and periodically renegotiated their contracts to adjust them to the market.

Exchange rate risk: this risk arises from the possibility of fluctuations in exchange rates affecting financial expenses or income and the liability or asset balance of contracts denominated in a foreign currency. In addition to trade receivables arising from exports from Brazil and investments abroad, which form a natural hedge against currency fluctuations, the Company and its subsidiaries assess their exchange exposure.

Credit risk: this risk arises from the possibility of the Company's subsidiaries not receiving amounts arising from sales or investments at financial institutions. To mitigate this risk, the Company's subsidiaries adopt the procedure of analyzing in detail the financial position of their customers, establishing a credit limit and constantly monitoring their balances. Additionally, all FINAME manufacturing financing transactions require collateral from the customers.

In relation to cash investments, the Company and its subsidiaries invest solely in prime institutions with low credit risk. Additionally, each institution has a maximum investment limit and balance, determined by the Company's Management. The Company's cash investments are represented basically by investments backed by CDBs, linked to the CDI (interbank deposit rate), maintained with prime financial institutions and with high liquidity, and shares of exclusive investment funds with an indefinite duration and not subject to taxes, resulting in benefits to its shareholder.

Risk related to FINAME manufacturer financing transactions: Liabilities related to FINAME manufacturer financing transactions are backed by the balances of "Onlending of FINAME manufacturer financing". In turn, the equipment related to these receivables is sold with retention of title by the Company to reduce the risk of loss.

Capital management risk: arises from the Company's option to adopt a financing structure for its operations. The Company manages its equity structure, which consists of a ratio between financial debts and equity (shareholders' equity, retained earnings and profit reserves), based on internal policies and benchmarks.

Foreign currency sensitivity analysis:

Exchange fluctuations may have a positive or adverse impact, as a result of the increase or decrease of the balances of suppliers of imported materials, increase or decrease in export trade receivables, and increase or decrease in foreign currency-denominated loans and financing, mostly in US dollar.

As of December 31, 2007, the balances denominated in foreign currency were subject to exchange variation. We estimate that a ten percent appreciation or depreciation in the exchange rate in relation to the local currency would have resulted in an expense or income of R$ 1.4 million, respectively. As of December 31, 2006, based on the same assumption, a ten percent appreciation or depreciation in the exchange rate in relation to the local currency would have resulted in an income or expense of R$ 1.4 million, respectively.

Interest rate sensitivity analysis:

Income from temporary cash investments and financial expenses arising from the Company's loans and financing are impacted by interest rate variations, such as TJLP and CDI.

As of December 31, 2007, an estimated ten percent increase or decrease in interest rates would increase or decrease financial income by R$ 1.8 million, respectively (R$ 0.6 million as of December 31, 2006, respectively). This amount was calculated considering the impact of hypothetical increases or decreases in interest rates on outstanding temporary cash investments and financing.

Note that as FINAME manufacturer financing refers to financing specifically linked to sales transactions (Trade accounts receivable - FINAME manufacturer financing) payable to us, but which under FINAME manufacturer financing rules we must fully transfer interest rates to our customers, we understand that there is no financial impact on income due to a fluctuation in the interest rate on this financing.

14. PAYROLL AND RELATED CHARGES

	2007	2006
Salaries	3,295	2,396
Accrued vacation and related charges	11,325	9,561
Payroll charges	6,102	4,325
Provision for profit sharing (Law No. 10101/2000)	15,212	9,598
Total	35,934	25,880

Employee profit sharing was recorded in the statements of income for the years ended December 31, 2007 and 2006, under the captions "cost of sales and services", "selling expenses", and "general and administrative expenses", according to the cost center of each employee.

15. TAXES PAYABLE

	2007	2006
COFINS (tax on revenue)	3,221	1,891
PIS (tax on revenue)	700	416
ICMS (state VAT)	2,814	2,912
Income and social contribution taxes on net income	1,208	2,784
Other taxes	70	78
Total	8,013	8,081

16. RESERVE FOR CONTINGENCIES

The Company's and subsidiaries' management, along with the legal counsel, classified lawsuits according to the risk of an unfavorable outcome, as specified below:

	Classification of lawsuits amounts as of December 31, 2007			Recorded reserve	
	Remote	Possible	Probable	2007	2006
Tax	7,299	3,334	7,683	7,683	4,612
Civil	1,837	409	168	168	290
Labor	2,000	642	895	895	576
Total	11,136	4,385	8,746	8,746	5,478

Management recognized a reserve for contingencies for lawsuits whose likelihood of an unfavorable outcome was classified as probable by the Company’s legal counsel. Changes in the year ended December 31, 2007 are shown below:

	2006	Additions	Uses/ reversals	Monetary adjustment	2007
Tax	4,612	6,136	(3,099)	34	7,683
Civil	290	-	(129)	7	168
Labor	576	563	(330)	86	895
	5,478	6,699	(3,558)	127	8,746

The subsidiaries are not parties to any ongoing lawsuit and have no contingencies that should be considered, according to Management and legal counsel.

As of December 31, 2007, the main lawsuits, which were classified by Management as probable loss based on the opinion of legal counsel and, therefore, were included in the reserve for contingencies, are as follows:

a) Tax lawsuits

Refer to reserve for PIS and COFINS (taxes on revenue) on ICMS (state VAT) on sales in the amounts of R$ 1,280 (R$ 186 as of December 31, 2006) and R$ 5,897 (R$ 855 as of December 31, 2006), respectively, and INSS (social security contribution) on services provided by cooperatives in the amount of R$ 506 (R$ 506 as of December 31, 2006). The Company is depositing in escrow PIS and COFINS on ICMS on sales. As of December 31, 2006, there was also a reserve for COFINS related to increase in the calculation basis of financial income and other revenues in the amount of R$ 3,065. This reserve was written off in 2007 due to a favorable decision rendered to the Company.

b) Civil lawsuits

Refer to contractual review claims filed in courts by customers.

c) Labor lawsuits

The Company recognized a reserve for contingencies for labor lawsuits in which it is the defendant, whose main causes of action are as follows: a) overtime due to reduction in lunch break; b) 40% fine on FGTS (severance pay fund) prior to retirement; c) 40% fine on FGTS on the elimination of inflation effects of the Verão and Collor economic plans; and d) indemnities for occupational accidents and joint liability of outsourced companies.

Civil and labor lawsuits assessed as possible loss involve matters similar to those above. The Company’s management believes that the outcome of ongoing lawsuits will not result in disbursements higher than those recognized in the reserve.

17. SHAREHOLDERS' EQUITY

During the year, the Company raised funds through a public stock offering, the cost of which, comprised of commissions to financial institutions, legal and audit fees, publications, and other related expenses, totaled R$ 12,963, which was recorded in shareholders' equity. The main events in the year and related to the public stock offering were as follows:

- Share Conversion - Pursuant to the Minutes of the Extraordinary Shareholders' Meeting held on February 15, 2007, the conversion of all preferred shares issued by the Company into common shares was approved at the ratio of 9 common shares for each 10 preferred shares, upon the prior approval of the shareholders holding more than half of the preferred shares, during the special shareholders' meeting held on the same date, in conformity with article 136, paragraph 1, of Law No. 6404/76. Accordingly, the Company's capital started to be represented by 62,361,828 common shares, without par value, but with the same rights and benefits;

- Capital Increase through Public Offering - Pursuant to the Minutes of the Board of Directors' meetings held on April 11, 2007 and April 25, 2007, capital increases of R$ 180,000 and R$ 62,936 were approved, totaling R$ 242,936 (R$ 229,973 net of issuance costs), from R$ 275,791 to R$ 505,764, through the issuance of 16,195,719 new common shares, which were paid up on April 17, 2007 and April 25, 2007, respectively, at the price of R$ 15.00 each. As a result of these capital increases, the Company's capital as of December 31, 2007 is represented by 78,557,547 registered common shares without par value.

Dividends: The Company's bylaws provide for the payment of a mandatory minimum dividend of 25% of net income adjusted as set forth by Corporate Law. Management's proposal for distribution of dividends and recognition of profit reserve submitted to the Annual Shareholders' Meeting is as follows:

	2007	2006
Net income	124,219	84,782
(-) Recognition of legal reserve	(5,448)	(4,146)
Income available for distribution	118,771	80,636
Dividends paid	(31,158)	-
Interest on capital	(42,814)	(26,110)
Recognition of profit reserve	44,799	54,526
Dividends paid	31,158	-
Interest on capital, net of withholding income tax	37,623	23,902
	68,781	23,902
% of income distributed	58%	30%

At yearend, the Company accrues the minimum dividends not paid during the year up to the limit of the mandatory minimum dividend.

Capital reserve

Consists of tax incentives reserves related to development projects.

Interest on capital

The Company opted to pay interest on capital in the amount of R$ 42,814 (R$ 26,110 in 2006), with withholding income tax of R$ 5,191 (R$ 2,208 in 2006). Interest on capital is included in dividends for each reporting year.

Legal reserve

As provided for in article 193 of Law No. 6404/76, 5% of net income for the year must be used to recognize a legal reserve, which cannot exceed 20% of capital. As of December 31, 2007, the Company recorded R$ 5,448 (R$ 4,146 in 2006).

Profit reserve

The amount of retained income for the year, plus a profit reserve, will be used to meet working capital needs and for investments in production capacity expansion and modernization, new product launches, and investments in subsidiaries, according to the investment plan approved by Management to be submitted to the Annual Shareholders' Meeting.

Cumulative foreign currency translation adjustments

The Company recognizes under this caption the cumulative effect from the translation of financial statements of its subsidiaries that maintain accounting records in a currency different from the reporting currency. These effects are recognized after the IFRS implementation date.

The cumulative effect will be reversed to income as a gain or loss in the event of sale or write-off of the investment.

18. EARNINGS PER SHARE

a) Changes in the number of shares

Shares issued	Common	Preferred	Total
Shares as of December 31, 2005	3,452,589	3,092,882	6,545,471
Shares as of December 12, 2006	3,452,589	3,092,882	6,545,471
1-for-10 stock split on March 23, 2007	34,525,890	30,928,820	65,454,710
Conversion of 10 preferred shares into 9 common shares on March 23, 2007	27,835,938	(30,928,820)	(3,092,882)
Issue of shares through public offering	16,195,719	-	16,195,719
Shares as of December 12, 2007	78,557,547	-	78,557,547

For earnings per share calculation purposes, the stock split and the conversion of preferred shares into common shares on March 23, 2007 were adjusted as if they had been carried out on January 1, 2006.

b) Earnings per share

In compliance with IAS No. 33, Earnings per Share, the following tables reconcile the net income with the amounts used to calculate the basic and diluted earnings per share.

	2007	2006
Net income	124,219	84,782
Weighted average of shares issued (in thousands)	73,765	62,362
Basic and diluted earnings per share	1.6840	1.3595

19. INCOME AND SOCIAL CONTRIBUTION TAXES

a) The table below shows the reconciliation of tax charges between effective and statutory rates.

	2007	2006
Income before income and social contribution taxes	150,317	109,802
Statutory rate (income and social contribution taxes)	34%	34%
Expected income and social contribution tax charges at statutory rate	51,108	37,333
Reconciliation to the effective rate:		
Interest on capital	(14,557)	(8,877)
Other additions (deductions), net	(9,094)	(3,083)
Income and social contribution taxes - current	27,457	25,373
Income and social contribution taxes - deferred	(1,914)	(628)
Income and social contribution tax charges	25,543	24,745
Provision for income and social contribution taxes	25,543	24,745
Effective income and social contribution tax rate	17%	22%

b) Deferred income and social contribution taxes

	2007				2006	
Assets	Temporary differences	Income tax	Social contribution tax	Total	Temporary differences	Deferred taxes
Adjustments to market value or other:						
Provision for inventory losses	10,253	2,553	923	3,476	11,681	3,957
Repossession of machinery	766	191	69	260	633	214
Investments	451	112	40	152	429	146
Adjustments to present value: trade accounts receivable and payable	649	162	58	220	562	190
Reserve for contingencies	4,419	1,101	398	1,499	977	331
Commissions	666	166	60	226	439	148
Suspended taxes	7,178	1,787	-	1,787	3,193	837
Management profit sharing	4,400	-	396	396	3,100	279
Deferred income and social contribution taxes, net	28,782	6,072	1,944	8,016	21,014	6,102
Liabilities						
Write off of negative goodwill on acquisition of subsidiary	4,199	1,026	378	1,404	4,199	1,404

i) The recorded asset is limited to amounts whose utilization is supported by future taxable income projections, approved by Management. Future taxable income projections include several estimates related to the performance of the Brazilian and global economies, selection of exchange rates, sales volume and price, tax rates, among others, which may differ from actual amounts. As the result of income and social contribution taxes depends not only on taxable income, but also on the tax and corporate structure of the Company and its subsidiaries in Brazil and abroad, the expected realization of temporarily nondeductible differences, the existence of non-taxable income, nondeductible expenses, and other variables, there is no direct correlation between the net income of the Company and its subsidiaries and the result of income and social contribution taxes. Accordingly, changes in the realization of temporarily nondeductible differences should not be considered indicative of future profits of the Company and its subsidiaries.

ii) Income and social contribution tax liabilities refer to the write-off of negative goodwill arising from acquisition of a subsidiary as part of the application of the IFRS. Tax payable on gain arising from the write-off of negative goodwill will be deferred until the negative goodwill is realized, which will occur when the investment is sold or impaired.

As of December 31, 2007, the expected realization of deferred income and social contribution taxes, recorded in noncurrent assets, is as follows:

	2007			2006		
	Income tax	Social contribution tax	Total	Income tax	Social contribution tax	Total
2007	-	-	-	554	479	1,033
2008	1,288	861	2,149	1,990	478	2,468
2009	2,849	384	3,233	871	315	1,186
2010	1,008	364	1,372	945	342	1,287
2011	908	328	1,236	94	34	128
2012	19	7	26	-	-	-
	6,072	1,944	8,016	4,454	1,648	6,102

c) Breakdown and changes in deferred income and social contribution taxes

	Balance as of 01/01/2006	Recognized in income	Balance as of 12/31/2006
Provision for inventory losses	3,202	755	3,957
Repossession of machinery	79	135	214
Investments	83	63	146
Adjustments to present value:			
Trade accounts receivable and payable	-	190	190
Reserve for contingencies	388	(57)	331
Commissions	650	(502)	148
Suspended taxes	1,072	(235)	837
Management profit sharing	-	279	279
Deferred income and social contribution taxes, net	5,474	628	6,102

	Balance as of 12/31/2006	Recognized in income	Balance as of 12/31/2007
Provision for inventory losses	3,957	(481)	3,476
Repossession of machinery	214	46	260
Investments	146	6	152
Adjustments to present value:			
Trade accounts receivable and payable	190	30	220
Reserve for contingencies	331	1,168	1,499
Commissions	148	78	226
Suspended taxes	837	950	1,787
Management profit sharing	279	117	396
Deferred income and social contribution taxes, net	6,102	1,914	8,016

20. PENSION PLAN

The Company has defined contribution pension plans managed by an authorized pension plan entity, effective since October 1, 2000, for all its employees and management, which are referred to as "*Plano Gerador de Benefício Livre (PGBL*)" and "*Fundo Gerador de Benefícios (FGB)*".

The nature of the plan allows the Company, at any time and at its sole and exclusive discretion, to suspend or permanently discontinue its contributions to the plan.

The plan is funded by the Company and its participants, according to the type of benefit for which they are eligible.

The Company's contributions in 2007 were R$ 3,166 (R$ 3,111 in 2006).

21. INSURANCE

The insured amounts are determined and contracted on a technical basis and are considered sufficient to cover potential losses arising from permanent assets and inventories. It is the policy of the Company and its subsidiaries to maintain insurance coverage for assets exposed to risks in amounts considered sufficient by Management to cover potential losses, according to the nature of activities and the risk assessment by specialized consultants. As of December 31, 2007, insurance coverage is as follows:

Coverage	Effective period	Coverage amount
Fire, windstorm, and electrical damage:		
Buildings	01/01 to 12/31/08	23,100
Machinery and equipment	01/01 to 12/31/08	53,332
Inventories	01/01 to 12/31/08	35,402

22. SEGMENT REPORTING

In order to manage its business the Company is organized into three business units. These business units are the basis on which the Company reports its primary information by segment according to IAS 14, Segment Reporting. The main segments are as follows: machine tools, plastic injectors and rough cast and machined products. Segment reporting on these business units is as follows:

	12/31/2007				
	Machine tools	Plastic injection machines	Cast and machined products	Eliminations between segments and other	Consolidated
Gross operating revenue	496,292	125,835	139,029	-	761,156
Taxes on sales	(79,502)	(21,631)	(28,035)	-	(129,168)
Net operating revenue	416,790	104,204	110,994	-	631,988
Cost of sales	(224,998)	(43,141)	(91,736)	-	(359,875)
Transfers remitted	22,793	-	30,645	(53,438)	-
Transfers received	(22,284)	(19,482)	(11,672)	53,438	-
Gross profit	192,301	41,581	38,231	-	272,113
Operating income (expenses):					
Selling expenses	(41,600)	(12,104)	(6,082)	-	(59,786)
General and administrative expenses	(31,329)	(6,834)	(7,293)	-	(45,456)
Research and development expenses	(21,525)	(4,815)	-	-	(26,340)
Management profit sharing and compensation	(9,174)	(1,513)	(1,738)	-	(12,425)
Tax expenses	(5,037)	(825)	(880)	-	(6,742)
Other income	1,031	-	-	-	1,031
Income from operations before financial income (expenses)	84,667	15,490	22,238	-	122,395
Financial income	-	-	-	-	30,508
Financial expenses	-	-	-	-	(5,048)
Exchange gains	-	-	-	-	(3,796)
Exchange losses	-	-	-	-	6,258
Total financial income (expenses)	-	-	-	-	27,922
Income before income and social contribution taxes	-	-	-	-	150,317
Income and social contribution taxes	-	-	-	-	(25,543)
Net income	-	-	-	-	124,774
Attributed to:					
Controlling shareholders’ equity	-	-	-	-	124,219
Minority interest	-	-	-	-	555
Inventories	151,235	18,052	13,757	-	183,044
Depreciation	8,028	420	3,407	-	11,855
Property, plant and equipment, net	94,561	1,842	33,263	-	129,666

	12/31/2006				
	Machine tools	Plastic injection machines	Cast and machined products	Eliminations between segments and other	Consolidated
Gross operating revenue	442,950	108,214	113,370	-	664,534
Taxes on sales	(73,484)	(19,844)	(22,258)	-	(115,586)
Net operating revenue	369,466	88,370	91,112	-	548,948
Cost of sales	(185,347)	(46,809)	(78,254)	-	(310,410)
Transfers remitted	12,684	-	27,433	(40,117)	-
Transfers received	(20,213)	(11,349)	(8,555)	40,117	-
Gross profit	176,590	30,212	31,736	-	238,538
Operating income (expenses):					
Selling expenses	(42,098)	(11,472)	(4,506)	-	(58,076)
General and administrative expenses	(33,017)	(5,607)	(6,061)	-	(44,685)
Research and development expenses	(16,569)	(4,536)	-	-	(21,105)
Management profit sharing and compensation	(7,495)	(1,467)	(1,533)	-	(10,495)
Tax expenses	(3,506)	(815)	(676)	-	(4,997)
Other income	481	-	-	-	481
Income from operations before financial income (expenses)	74,386	6,315	18,960	-	99,661
Financial income	-	-	-		13,282
Financial expenses	-	-	-	-	(2,572)
Exchange gains	-	-	-	-	891
Exchange losses	-	-	-	-	(1,460)
Total financial income (expenses)	-	-	-	-	10,141
Income before income and social contribution taxes	-	-	-	-	109,802
Income and social contribution taxes	-	-	-	-	(24,745)
Net income	-	-	-	-	85,057
Attributed to:					
Controlling shareholders' equity	-	-	-	-	84,782
Minority interest	-	-	-	-	275
Inventories	136,901	19,603	13,286	-	169,790
Depreciation	5,618	443	3,063	-	9,124
Property, plant and equipment, net	83,395	1,871	32,028	-	117,294

Sales to outside customers, based on the geographic location of such customers, for each geographic segment do not exceed 10% of the Company's total sales. Additionally, the related assets by geographic location are substantially located in Brazil.

23. FUTURE COMMITMENTS

On May 1, 2007, the Company entered into an electric power supply agreement with the concessionaire Centrais Elétricas Cachoeira Dourada S.A. - CDSA, which belongs to the Endesa Group, effective between January 1, 2008 and December 31, 2012, under the "free consumer" system. This agreement is annually adjusted based on the IGP-M (general market price index) and distributed as follows:

Year of supply	Amount
2008	7,484
2009	8,268
2010	9,010
2011	9,858
2012	10,309
Total	44,929

Management estimates that this agreement is consistent with the required electric power consumption for the agreement period.

24. EXPENSES BY NATURE

The Company elected to report the Consolidated Statement of Income by function. As required by the IFRS, we present below the Consolidated Statement of Income detailed by nature:

	2007	2006
Depreciation and amortization	11,855	9,124
Personnel expenses	167,975	160,252
Raw material and consumable supplies	255,728	231,317
Freight	10,787	9,047
Other expenses	64,279	40,028
Total	510,624	449,768

	2007	2006
Classified as:		
Cost of sales	359,875	310,410
Selling expenses	59,786	58,076
General and administrative expenses	45,456	44,685
Research and development expenses	26,340	21,105
Management profit sharing and compensation	12,425	10,495
Tax expenses	6,742	4,997
Total	510,624	449,768

25. SUBSEQUENT EVENTS

On January 25, 2008, the Company acquired, for R$ 5,531, all shares in J.A.C. Indústria Metalúrgica Ltda. (“JAC”). This acquisition generated immaterial goodwill, the best allocation of which is being assessed by the Company.

JAC is a traditional manufacturer of plastic blowers with headquarters and operations in the city of Americana, state of São Paulo, and its acquisition is in line with the Company’s strategy to expand its line of products and its activities related to production and sale of plastic processing machines, which until then were concentrated in the injection segment.

The transaction was approved by the Company’s Board of Directors at the meeting held on January 25, 2008, and its approval by the Shareholders’ Meeting was waived according to Article 256 of Law No. 6404/76.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors of the Company on February 12, 2008.